

CALIFORNIA LOTTERY

Audit Report

SAMUEL RAMIREZ & CO. CONTRACT

May 1, 2009, through January 31, 2011



JOHN CHIANG
California State Controller

August 2011



JOHN CHIANG
California State Controller

August 10, 2011

John Mass, Chairperson
California Lottery Commission
600 North Tenth Street
Sacramento, CA 95811

Dear Mr. Mass:

The State Controller's Office audited the California Lottery's (Lottery) monitoring of the contract with Samuel Ramirez & Co. (Contract No. 14240), for the period of May 1, 2009, through January 31, 2011.

Our audit did not disclose any significant deficiencies in the Lottery's monitoring of the contract.

If you have any questions, please call Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: John Menchaca, Commissioner
California Lottery Commission
Alex E. Fortunati, Commissioner
California Lottery Commission
Linh Nguyen, Acting Director
California Lottery
Michael T. Ota, Deputy Director
Finance Division
California Lottery
Roberto Zavala, Chief
Internal Audits
California Lottery

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) contract with Samuel Ramirez & Co. (Contract No. 14240) for the period of May 1, 2009, through January 31, 2011.

The audit did not disclose any significant deficiencies in the Lottery's fiscal controls over payments and monitoring of the contract.

Background

By authority of the California Constitution, Government Code section 12410 states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provision of law for payment." In addition, Government Code section 12411 stipulates that "... the Controller shall suggest plans for the improvement and management of revenues."

Proposition 37, the California State Lottery Act of 1984 (Lottery Act), amended the California Constitution to authorize the establishment of a statewide lottery, to create the California Lottery Commission, and to give the commission broad powers to oversee the operation of a statewide lottery.

Pursuant to Government Code section 8880.67, the SCO may conduct other special post-audits of the Lottery, as the State Controller deems necessary. The Controller or his/her agents conducting an audit under this chapter shall have access and authority to examine any and all records of the California Lottery Commission.

The Lottery entered into a contract with Samuel Ramirez & Co. to:

- Act as an investment advisor to assist the Lottery in developing the investment restructuring program and subsequent management of the program.
- Represent the Lottery as bidding agent and broker-dealer in the restructuring of the Lottery's investment portfolio.

The original contract is for the period of May 14, 2009 through June 30, 2011. The maximum obligated amount of the agreement is \$4,000,000.

Objectives, Scope, and Methodology

The purpose of the audit was to determine whether the Lottery's fiscal controls over payments and monitoring procedures are adequate to ensure that Samuel Ramirez & Co. complies with the terms and conditions of its contract with the Lottery.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The specific objectives of the audit were to determine if the Lottery ensured that:

- The payments made relative to the contract are legal and proper;
- The Lottery is abiding with state laws, rules, regulations, and policies with regard to the contract with Samuel Ramirez & Co.;
- The Lottery maintained adequate internal controls to obtain reasonable assurance with respect to the safeguarding of assets; and
- The Lottery is monitoring the contract for compliance.

The audit period was May 1, 2009 through January 31, 2011. Our audit scope included, but was not limited to, the following audit procedures:

- Reviewing Samuel Ramirez & Co.'s contract and subcontracts, if any, contract law, rules, regulations, Lottery policies, and related accounting records;
- Reviewing work performed by any external audit organization or by any other Lottery unit;
- Interviewing and observing individuals involved in the development, authorization, and monitoring of the Samuel Ramirez & Co. contract;
- Performing tests of procedural compliance and tests of payments as we deem necessary; and
- Analyzing and evaluating the internal controls for the contract process.

We did not audit Samuel Ramirez & Co.'s or the Lottery's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that Lottery's monitoring of the Samuel Ramirez & Co. contract was adequate to ensure compliance with the terms and conditions of the contract; and payments are legal and proper.

Conclusion

Our audit of the Samuel Ramirez & Co.'s contract (Contract No. 14240) for the period of May 1, 2009, through January 31, 2011, did not disclose any significant deficiencies in the Lottery's monitoring of the contract, and it appears that the Lottery is abiding with state laws, rules, regulations, and policies with regard to the contract.

**Views of
Responsible
Officials**

We discussed our audit results with Michael Ota, Deputy Director of Finance, and Roberto Zavala, Chief of Internal Audits, during our exit conference held on June 29, 2011. No reportable findings were disclosed during the audit; therefore, they agreed a draft report is not necessary and the report will be issued as final.

Restricted Use

This report is intended for the information and use of the California Lottery, the California Lottery Commission, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

August 10, 2011

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